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Default Superannuation Funds in Modern Awards
Productivity Commission
LB2 Collins St East
Melbourne VIC 8003

By email: default.super@pc.gov.au

Dear Commissioner

Issues paper – default superannuation funds in modern awards

CPA Australia represents the diverse interests of more than 139,000 members in 114 countries. Our vision is to make CPA Australia the global accountancy designation for strategic business leaders. We welcome the opportunity to provide our views to the above review.

This submission has been prepared with the assistance of CPA Australia's Retirement Savings Centre of Excellence (CoE). The CoE is a member based committee that includes leading experts from the superannuation industry. Our superannuation experts work across major components of the superannuation industry ranging from some of the largest industry, corporate and retail funds through to self-managed superannuation funds.

CPA Australia's primary concern with the current process for nominating default superannuation funds in modern awards is the lack of transparency and the 'closed shop' nature of the arrangements. The fact that a fund can only be included in a modern award if it is the incumbent super fund, has the consent of the main parties to the award, or is able to apply as a party with 'standing' has led to a narrow concentration of a relatively small number of funds being represented in modern awards.

Australia's superannuation system has evolved considerably since the days of award superannuation when there was a distinct industry fund for that particular industry. Most industry funds are now no longer restricted to any one industry and are public offer funds open to all employees, the self-employed and others. Since the introduction of Choice of Fund in 2005 they have been able to openly compete with other superannuation funds for members while maintaining relatively exclusive access to award employees due to the restricted selection process for inclusion in modern awards.

CPA Australia believes that in a choice environment all superannuation funds should be able to compete on an equal footing. While, it could be argued that for a truly competitive market the nomination of default funds would not be included in modern awards, the inclusion of one or more funds in an award does assist employees in selecting a superannuation fund without having to research all of the funds available in the market. It also removes the administrative burden for employees of having to offer a default fund to employees.

We believe the introduction of the MySuper products, with their required generic features will create the level playing field on which all funds will be able to compete on equal terms. We also believe all MySuper products should be eligible for nomination as default arrangements under modern awards.

One or more MySuper products should be nominated as the default arrangement in a modern award but there should be a limit on the number of funds that can be nominated to allow meaningful comparisons. To allow all MySuper products to be listed as default funds for a modern award would result in overwhelming choice making it difficult for employees to differentiate and make an informed choice in much the same way as if no funds were listed.

Given the generic nature of MySuper products, being a MySuper product in itself should not be sufficient to allow it to be selected as a default fund. As such, a broader set of selection criteria is required to ensure a selection can be made that is relevant to the needs of the employees covered by the award.

CPA Australia believes the following criteria should be considered when determining the suitability on a default fund:

- The appropriateness of the investment strategy
- Long term net performance against fund benchmarks
- Level of fees
- Availability, suitability and cost of insurance
- Other services provided to members.

All criteria should have equal weighting. Importantly, the focus should be on the overall value or benefit provided to members. Cost should not be a driver.

We do not believe scale should be a deciding factor as smaller or specialised funds may provide the necessary value to employees in a particular industry or achieve scale through pooling administration or investment resources.. Similarly, governance should not be a factor as all MySuper products will have to abide by the same strict governance requirements and prudential standards overseen by APRA.

Depending on the award and the breadth of its coverage it is unlikely that any one fund may suit the needs of all the employees covered by the award. Superannuation fund trustees must act in the best interest of their members and have an obligation to set their fund parameters, such as investment allocation and insurance offerings to suit their members' needs. Depending on the demographics and roles covered by an award the needs addressed by any one particular fund may not align with the needs of all employees and multiple funds would need to be nominated.

Not only would the establishment of criteria for the selection of default funds assist Fair Work Australia to select MySuper products or other arrangements for inclusion in modern awards and create a more level playing field for all superannuation funds to compete, it would also provide a valuable tool to assist non-award employers to choose the most appropriate default fund for their employees or assist employees to choose a superannuation fund other than their employer's default fund.

To further ensure competitive neutrality, we believe all existing modern awards should also be reviewed within two to three years to ensure all current nominated funds also meet and continue to meet the selection criteria.

CPA Australia looks forward to providing more input to the inquiry when the commission releases its draft report in June.

Yours faithfully

Michael Davison
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